

**Michigan Municipal Bond Authority
of the State of Michigan
(A Component Unit of the
State of Michigan)**

**Financial Report
with Supplemental Information
September 30, 2005**

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Michigan Municipal Bond Authority of the State of Michigan

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Independent Auditor's Report

Michigan Municipal Bond Authority
Lansing, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

We have audited the accompanying basic financial statements of the Michigan Municipal Bond Authority, a component unit of the State of Michigan, as of and for the years ended September 30, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Municipal Bond Authority at September 30, 2005 and 2004, and the changes in the financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (Unaudited) presented on pages 6 through 13 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Michigan Municipal Bond Authority
Lansing, Michigan
and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

October 28, 2005

**Report on Internal Controls Over Financial
Reporting and on Compliance and Other
Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Michigan Municipal Bond Authority
Lansing, Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

We have audited the basic financial statements of the Michigan Municipal Bond Authority (the Authority), a component unit of the State of Michigan, as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Michigan Municipal Bond Authority
Lansing, Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Michigan Municipal Bond Authority and the Auditor General of the State of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Plante & Moran, PLLC

October 28, 2005

Management's Discussion and Analysis (Unaudited)

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited)

Financial Position and Results of Operations

We are pleased to present the financial statements for the Michigan Municipal Bond Authority (the Authority). The Authority is a non-profit agency, established by the Shared Credit Rating Act, Public Act 227 of 1985, to provide local governments and schools cost-effective choices for borrowing funds. The Authority's programs are designed to meet the financing needs of the borrowers while offering a simplified borrowing process with highly competitive rates and reduced cost of issuance. All cities, counties, townships, schools, public hospitals, colleges, and universities are eligible to use the Authority on a voluntary basis.

The Authority is a public corporate body within the Michigan Department of Treasury, Bureau of Bond Finance. The Authority is governed by a Board of Trustees, which provides overall governing direction for the Authority. The State Treasurer serves as chairperson on the Board of Trustees. The Governor, with the advice and consent of the State Senate, appoints the members of the Board of Trustees.

The basis of the Authority's financing programs is the pooling of local government loans. The Authority gathers or pools various types and sizes of local government bonds, notes, and installment purchase agreements. The Authority sells a similar amount of debt in the regional and national public finance market and lends the monies received from the sale to the participating municipal borrowers. The Authority consistently offers interest rates that compare favorably with Michigan and national pricing indices. Also, the Authority's reputation and name recognition in the capital markets creates demand for the Authority's securities, translating to lower interest rates for borrowers. Additionally, borrowers on a pro-rata basis share costs of issuance, typically resulting in lower costs than each borrower would pay individually. As the Authority can lower the interest rate and issuing costs for Michigan governments, the result is fewer tax dollars expended for debt by Michigan taxpayers. As borrowers make repayments the Authority uses these funds to repay its bond or note holders. Each borrower pays a pro rata share of costs of issuance and is only responsible for their own loan.

The Authority offers a variety of programs to provide financing options to local units of government or schools needing loans. A community or school may borrow for such purposes as new building and land purchases; water and sewer projects; fire trucks; police cars; school busses or other equipment needs; road improvements; energy conservation; refundings; cash flow; or other legally authorized projects and purposes. These programs include:

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Financial Position and Results of Operations (Continued)

- Local Government Loan Program that provides competitive interest rates for 3 to 30 year loans. The Authority issues several types of bonds under this program: Revenue Sharing, Transportation Fund, School Aid and Insured, Local Project Bonds, and Qualified School Bonds. The Authority issued bonds totaling \$9.985 million for the fiscal year ended September 30, 2005.
- State Aid Note Program offers a simplified borrowing process for schools to fund short-term cash flow needs for operating purposes. The program allows schools to pool their loans with those of other schools, resulting in competitive rates and reduced costs of issuance. This program began in 1987 and in FY 2005 financings totaled \$838.2 million providing 236 new loans for school districts.
- State Revolving Fund and the Drinking Water Revolving Fund programs provide low cost financing for municipal wastewater facilities and drinking water projects. The Authority jointly administers these programs with the Michigan Department of Environmental Quality, which determines qualified projects and annual funding priority. The Authority issued \$255.68 million of State Revolving Fund bonds in July 2005 including a refunding of prior debt in the amount of \$86,375,000.
- Local Government Financing Program offers options and flexibility for borrowers through Financing Agreements that provide funds as needed. Qualified borrowers are able to apply for loans as needed. The Authority has partnered with an underwriter to offer this program. The program is a pass through financing for the Authority and as such the Authority does not reflect a liability for these loans in its financial statements.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Financial Position and Results of Operations (Continued)

- The Strategic Water Quality Initiatives Fund program provides loans to municipalities for purposes such as septic system upgrades and replacements and other projects which are generally not eligible to be financed through the State Revolving Fund program. This program is managed by the Authority and the Department of Environmental Quality. The \$10 million of Great Lakes Water Quality Bonds issued in December 2003 were placed into the Strategic Water Quality Initiatives Fund. The Authority pledged \$4.975 million to its Series 2004B bonds issued in December 2004 and maturing in December 2005.
- In fiscal year 2005, amendments to the Shared Credit Rating Act required the Authority to establish a school loan revolving fund. During FY 2005, the fund received a \$30 million capital contribution from the state in addition to an assignment of loan repayment obligations totaling \$42.3 million on loans previously made from the school bond loan fund. In exchange for the assignment of loan repayments, the Authority allocated \$41.1 million in the current fiscal year from the School Loan Revolving Fund to the State of Michigan School Aid Fund (SAF). This resulted in the Authority recording a liability to the SAF at September 30, 2005.

The enclosed basic financial statements present the Authority's balance sheet, revenue, expenses, and changes in fund equity, and cash flows. The following is a condensed summary of financial information for the years ended September 30, 2005 and 2004.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Condensed Financial Information for General Fund, State Revolving Fund, Strategic Water Quality Initiatives Fund, and School Loan Revolving Fund (in thousands)

Net Assets	2005	2004	Variance	
Cash and investments	\$ 1,712,418	\$ 1,593,888	\$ 118,530	7.44%
Accrued interest receivable	146,912	142,986	3,926	2.75%
Revenue notes receivable	830,905	762,067	68,838	9.03%
Bonds receivable	766,143	819,930	(53,787)	(6.56%)
Loans receivable	2,023,752	1,649,186	374,566	22.71%
Other receivables	17,108	23,690	(6,582)	(27.78%)
Deferred charges	29,565	25,630	3,935	15.35%
Total assets	5,526,803	5,017,377	509,426	
Revenue notes payable	832,625	763,051	69,574	9.12%
Bonds payable	2,978,082	2,663,963	314,119	11.79%
Accrued interest payable	136,304	140,023	(3,719)	(2.66%)
Other liabilities	45,763	6,657	39,106	587.44%
Deferred revenue	760	10,941	(10,181)	(93.05%)
Total liabilities	3,993,534	3,584,635	408,899	
Total net assets	<u>\$ 1,533,269</u>	<u>\$ 1,432,742</u>	<u>\$ 100,527</u>	

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Condensed Financial Information for General Fund, State Revolving Fund, Strategic Water Quality Initiatives Fund and School Loan Revolving Fund (in thousands) (Continued)

Operating Results	2005	2004	Variance	
Interest income	\$ 159,714	\$ 139,878	\$ 19,836	14.18%
Other income	3,186	4,093	(907)	(22.16%)
Total income	162,900	143,971	18,929	
Interest expense	149,232	135,216	14,016	10.37%
Amortization expense	6,517	4,488	2,029	45.21%
Administrative expense	3,403	3,514	(111)	(3.16%)
Total expense	159,152	143,218	15,934	
Operating income	3,748	753	2,995	
Nonoperating revenue (expense)	96,779	110,291	(13,512)	(12.25%)
Change in net assets	<u>\$ 100,527</u>	<u>\$ 111,044</u>	<u>\$ (10,517)</u>	(9.47%)

Net Assets

Total assets increased from \$5.01 billion at September 30, 2004 to over \$5.53 billion at September 30, 2005. This increase is the result of an increase in cash and investments, revenue notes receivable, and loans receivable resulting from the Authority's financings.

The overall increase in cash is the result of the investments held for loans to communities as the result of the sale of the 2005 State Revolving Fund bonds. These bond issues provided over \$185 million available for future draws by municipalities for projects funded by these programs. Funds available for future draws are invested by the Authority until needed. Revenue Notes Receivable was increased as a result of the financings to schools to help the schools meet short-term cash flow needs. The 2005 financings for this program resulted in 236 loans to schools.

Loans Receivable increases of approximately \$375 million were the result of draws on loans by community and municipalities participating in the State Revolving Funds as well as a loan to Detroit Public Schools of \$210 million that refinanced and restructured an earlier note borrowing. In addition, the loans increased due to the assignment of loans from the State of Michigan.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Net Assets (Continued)

Total liabilities increased from \$3.58 billion at fiscal year-end 2004 to \$3.99 billion at year-end 2005. This increase is due to the issuance of bonds for approximately \$471.7 million which included a partial refunding of the 1997 Clean Water Bonds. More detailed information on debt outstanding is shown in Notes 4 and 9 of the audited basic financial statements. Long-term debt represents approximately 75 percent of total liabilities. Funds for the Authority's debt payments come from the principal and interest repayments made by borrowers participating in the various loans/programs of the Authority.

Unrestricted assets in the General Fund are reported as \$7.7 million. Restricted assets of the State Revolving Fund increased as a result of federal capitalization grants awarded to the Department of Environmental Quality (DEQ) and used in the Water Pollution and Drinking Water Programs to fund construction projects. The School Loan Revolving Fund net assets represent a capital contribution from the State which will be used for loans in the next fiscal year as well as loan repayments assigned to the Fund. Total net assets of the Authority are \$1.53 billion.

Results of Operations for the Year Ended September 30, 2005 Compared to the Year Ended September 30, 2004

Overall operating income of \$3.7 million is an increase from the prior fiscal year. Higher earnings on investments contributed to the increase. As investments have matured, the reinvestment opportunities have been at higher rates which impact interest income.

Revenue from interest earnings represents 98 percent of the Authority's total operating revenue. Other operating revenue consists of administrative fees and fees the Authority receives from its financing activities. Operating expenses reported at September 30, 2005 total \$159.1 million. Of this, the administrative expense is 2.1 percent of total operating expense. Salaries and indirect administrative expenses are allocated to the Authority based on a predetermined percentage of total Bureau costs. The Authority processes the payment of certain administrative fees for the staff of the Department of Environmental Quality, the co-administrators of the State Revolving Fund. Funds for these administrative expenses are provided in part by a grant from the federal government.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Contacting the Municipal Bond Authority

In addition to its audited basic financial statements, the Authority issues an annual statistical report as required by statute. Interested parties may obtain such reports by contacting the Authority. Information on the Authority can be found at www.michigan.gov/mmba.

The contact information for the Authority is:

Michigan Municipal Bond Authority
Treasury Building
430 W. Allegan
Lansing, MI 48922
Phone (517) 335-0994

Basic Financial Statements

Michigan Municipal Bond Authority of the State of Michigan

Statement of Net Assets

	Business-type Activities									
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives Fund		School Loan Revolving Fund		Total	
	September 30		September 30		September 30		September 30		September 30	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Assets										
Current Assets										
Cash (Note 2)	\$ -	\$ 74,610	\$ 22,368	\$ 228,717	\$ -	\$ 208	\$ 30,000,000	\$ -	\$ 30,022,368	\$ 303,535
Investments (Note 2)	17,202,081	7,750,061	579,489,756	552,450,818	892,031	717,752	-	-	597,583,868	560,918,631
Accrued interest receivable	25,995,022	23,022,583	13,342,446	11,640,611	1,734	2,315	-	-	39,339,202	34,665,509
Revenue notes receivable (Note 4)	830,905,112	762,067,185	-	-	-	-	-	-	830,905,112	762,067,185
Bonds receivable (Note 5)	83,402,231	53,056,873	-	-	-	-	-	-	83,402,231	53,056,873
Loans receivable:										
State revolving (Note 6)	-	-	91,666,983	91,456,983	-	-	-	-	91,666,983	91,456,983
Public school (Note 7)	853,320	500,000	-	-	-	-	-	-	853,320	500,000
Strategic water quality initiatives (Note 8)	-	-	-	-	75,000	45,000	-	-	75,000	45,000
Receivable from State of Michigan	-	-	430,200	476,322	243,057	93,330	-	-	673,257	569,652
Other	250,454	125,704	504,811	5,644,369	-	-	-	-	755,265	5,770,073
Total current assets	958,608,220	846,597,016	685,456,564	661,897,820	1,211,822	858,605	30,000,000	-	1,675,276,606	1,509,353,441
Noncurrent Assets										
Investments (Note 2)	10,781,508	16,268,624	1,074,029,834	1,016,397,431	-	-	-	-	1,084,811,342	1,032,666,055
Accrued interest receivable	107,572,545	108,319,527	-	-	-	-	-	-	107,572,545	108,319,527
Deferred charges - Net (Note 3)	16,745,533	13,263,925	12,816,075	12,355,807	3,500	10,700	-	-	29,565,108	25,630,432
Bonds receivable (Note 5)	682,741,050	766,873,273	-	-	-	-	-	-	682,741,050	766,873,273
Receivable from State of Michigan	-	-	15,680,000	17,350,000	-	-	-	-	15,680,000	17,350,000
Loans receivable:										
State revolving (Note 6)	-	-	1,633,514,793	1,514,740,772	-	-	-	-	1,633,514,793	1,514,740,772
Public school (Note 7)	254,074,112	41,800,000	-	-	-	-	42,306,380	-	296,380,492	41,800,000
Strategic water quality initiatives (Note 8)	-	-	-	-	1,261,707	643,314	-	-	1,261,707	643,314
Total noncurrent assets	1,071,914,748	946,525,349	2,736,040,702	2,560,844,010	1,265,207	654,014	42,306,380	-	3,851,527,037	3,508,023,373
Total assets	\$ 2,030,522,968	\$ 1,793,122,365	\$ 3,421,497,266	\$ 3,222,741,830	\$ 2,477,029	\$ 1,512,619	\$ 72,306,380	\$ -	\$ 5,526,803,643	\$ 5,017,376,814

Michigan Municipal Bond Authority of the State of Michigan

Statement of Net Assets (Continued)

	Business-type Activities									
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives		School Loan Revolving Fund		Total	
					Fund					
	September 30		September 30		September 30		September 30		September 30	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Liabilities and Net Assets										
Current Liabilities										
Accounts payable and other liabilities	\$ 275,872	\$ 492,584	\$ 3,965,441	\$ 5,635,535	\$ -	\$ 3,500	\$ -	\$ -	\$ 4,241,313	\$ 6,131,619
Due to other governmental units	-	-	410,035	514,001	11,387	11,098	-	-	421,422	525,099
Accrued interest payable	37,745,816	32,287,389	42,617,465	42,632,472	72,000	14,703	-	-	80,435,281	74,934,564
Revenue notes payable (Note 4)	832,624,518	763,050,918	-	-	-	-	-	-	832,624,518	763,050,918
Deferred revenue	-	-	761,444	10,941,750	-	-	-	-	761,444	10,941,750
Payable to the State of Michigan	-	-	-	-	-	-	41,100,000	-	41,100,000	-
Bonds payable (Note 9)	72,331,914	52,221,290	58,815,000	45,300,000	2,393,642	1,483,318	-	-	133,540,556	99,004,608
Total current liabilities	942,978,120	848,052,181	106,569,385	105,023,758	2,477,029	1,512,619	41,100,000	-	1,093,124,534	954,588,558
Noncurrent Liabilities										
Accrued interest payable	55,868,587	65,088,187	-	-	-	-	-	-	55,868,587	65,088,187
Bonds payable (Note 9)	1,023,978,683	869,714,646	1,820,562,573	1,695,243,563	-	-	-	-	2,844,541,256	2,564,958,209
Total noncurrent liabilities	1,079,847,270	934,802,833	1,820,562,573	1,695,243,563	-	-	-	-	2,900,409,843	2,630,046,396
Total liabilities	2,022,825,390	1,782,855,014	1,927,131,958	1,800,267,321	2,477,029	1,512,619	41,100,000	-	3,993,534,377	3,584,634,954
Net Assets										
Unrestricted	7,697,578	10,267,351	-	-	-	-	-	-	7,697,578	10,267,351
Restricted (Note 1)										
Water pollution and drinking water projects	-	-	1,494,365,308	1,422,474,509	-	-	-	-	1,494,365,308	1,422,474,509
School Loan Revolving Fund	-	-	-	-	-	-	31,206,380	-	31,206,380	-
Total net assets	7,697,578	10,267,351	1,494,365,308	1,422,474,509	-	-	31,206,380	-	1,533,269,266	1,432,741,860
Total liabilities and net assets	\$ 2,030,522,968	\$ 1,793,122,365	\$ 3,421,497,266	\$ 3,222,741,830	\$ 2,477,029	\$ 1,512,619	\$ 72,306,380	\$ -	\$ 5,526,803,643	\$ 5,017,376,814

Michigan Municipal Bond Authority of the State of Michigan

Statement of Revenue, Expenses, and Changes in Net Assets

	Business-type Activities									
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives Fund		School Loan Revolving Fund		Total	
	Year Ended September 30		Year Ended September 30		Year Ended September 30		Year Ended September 30		Year Ended September 30	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Operating Revenue										
Interest	\$ 67,236,326	\$ 63,369,100	\$ 92,435,757	\$ 76,500,326	\$ 41,948	\$ 8,390	\$ -	\$ -	\$ 159,714,031	\$ 139,877,816
Other (Note 10)	724,712	1,433,604	2,461,406	2,659,662	-	-	-	-	3,186,118	4,093,266
Total operating revenue	67,961,038	64,802,704	94,897,163	79,159,988	41,948	8,390	-	-	162,900,149	143,971,082
Operating Expenses										
Interest expense	64,334,289	59,142,973	84,772,581	76,014,498	125,645	58,822	-	-	149,232,515	135,216,293
Amortization of deferred charges	5,272,046	3,397,552	1,216,411	1,061,918	28,200	28,300	-	-	6,516,657	4,487,770
Salaries, wages, and other administrative	924,476	861,740	2,440,723	2,637,175	37,830	14,598	-	-	3,403,029	3,513,513
Total operating expenses	70,530,811	63,402,265	88,429,715	79,713,591	191,675	101,720	-	-	159,152,201	143,217,576
Operating Income (Loss)	(2,569,773)	1,400,439	6,467,448	(553,603)	(149,727)	(93,330)	-	-	3,747,948	753,506
Nonoperating Revenue (Expenses)										
Operating subsidies (Note 1)	-	-	65,423,351	110,734,676	149,727	93,330	31,206,380	-	96,779,458	110,828,006
Contribution to MPEFA (Note 11)	-	(537,000)	-	-	-	-	-	-	-	(537,000)
Total nonoperating revenue (expenses)	-	(537,000)	65,423,351	110,734,676	149,727	93,330	31,206,380	-	96,779,458	110,291,006
Changes in Net Assets	(2,569,773)	863,439	71,890,799	110,181,073	-	-	31,206,380	-	100,527,406	111,044,512
Net Assets - Beginning of year	10,267,351	9,403,912	1,422,474,509	1,312,293,436	-	-	-	-	1,432,741,860	1,321,697,348
Net Assets - End of year	<u>\$ 7,697,578</u>	<u>\$ 10,267,351</u>	<u>\$ 1,494,365,308</u>	<u>\$ 1,422,474,509</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,206,380</u>	<u>\$ -</u>	<u>\$ 1,533,269,266</u>	<u>\$ 1,432,741,860</u>

Michigan Municipal Bond Authority of the State of Michigan

Statement of Cash Flows

	Business-type Activities									
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives Fund		School Loan Revolving Fund		Total	
	Year Ended September 30		Year Ended September 30		Year Ended September 30		Year Ended September 30		Year Ended September 30	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Cash Flows from Operating Activities										
Cash payments to employees and suppliers for goods and services	\$ (924,476)	\$ (861,740)	\$ (2,060,139)	\$ (2,614,344)	\$ (41,041)	\$ -	\$ -	\$ -	\$ (3,025,656)	\$ (3,476,084)
Other operating revenue (expense)	599,962	1,538,218	7,496,998	2,044,917	-	-	-	-	8,096,960	3,583,135
Net cash provided by (used in) operating activities	(324,514)	676,478	5,436,859	(569,427)	(41,041)	-	-	-	5,071,304	107,051
Cash Flows from Noncapital Financing Activities										
Proceeds from sale of bonds and notes	1,088,905,320	913,401,577	276,736,817	384,142,557	2,400,000	1,439,199	-	-	1,368,042,137	1,298,983,333
Payment of bond issue costs	(8,970,366)	(4,695,938)	(2,200,334)	(3,482,854)	(20,999)	(39,000)	-	-	(11,191,699)	(8,217,792)
Principal paid on bonds and notes	(826,574,448)	(860,079,366)	(48,898,537)	(33,740,000)	(1,500,000)	-	-	-	(876,972,985)	(893,819,366)
Extinguishment of debt	-	(57,570,000)	(86,375,000)	-	-	-	-	-	(86,375,000)	(57,570,000)
Interest paid on bonds and notes	(83,901,231)	(72,185,784)	(88,943,881)	(72,005,353)	(58,024)	-	-	-	(172,903,136)	(144,191,137)
Contribution to MPEFA	-	(537,000)	-	-	-	-	-	-	-	(537,000)
Operating subsidies	-	-	55,243,045	104,398,823	-	-	30,000,000	-	85,243,045	104,398,823
Proceeds on receivables from State of Michigan	-	-	1,285,919	1,640,000	-	-	-	-	1,285,919	1,640,000
Net cash provided by (used in) noncapital financing activities	169,459,275	(81,666,511)	106,848,029	380,953,173	820,977	1,400,199	30,000,000	-	307,128,281	300,686,861
Cash Flows from Investing Activities										
Loans made to local government units	(1,067,661,221)	(908,206,196)	(210,651,004)	(267,391,262)	(693,394)	(688,314)	-	-	(1,279,005,619)	(1,176,285,772)
Principal received on loan repayments	841,468,250	922,148,742	91,666,983	87,898,117	45,000	-	-	-	933,180,233	1,010,046,859
Interest received on loan repayments	55,874,793	54,237,525	36,834,156	36,834,156	-	-	-	-	92,708,949	91,071,681
Net (purchases) proceeds from sale and maturities of investment securities	(3,964,904)	11,319,637	(84,671,341)	(279,038,298)	(174,279)	(717,752)	-	-	(88,810,524)	(268,436,413)
Interest and dividends on investments	5,073,711	1,547,609	54,329,969	41,502,047	42,529	6,075	-	-	59,446,209	43,055,731
Net cash provided by (used in) investing activities	(169,209,371)	81,047,317	(112,491,237)	(380,195,240)	(780,144)	(1,399,991)	-	-	(282,480,752)	(300,547,914)

Michigan Municipal Bond Authority of the State of Michigan

Statement of Cash Flows (Continued)

	Business-type Activities									
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives Fund		School Loan Revolving Fund		Total	
	Year Ended September 30		Year Ended September 30		Year Ended September 30		Year Ended September 30		Year Ended September 30	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Net Increase (Decrease) in Cash	\$ (74,610)	\$ 57,284	\$ (206,349)	\$ 188,506	\$ (208)	\$ 208	\$ 30,000,000	\$ -	\$ 29,718,833	\$ 245,998
Cash - Beginning of year	74,610	17,326	228,717	40,211	208	-	-	-	303,535	57,537
Cash - End of year	<u>\$ -</u>	<u>\$ 74,610</u>	<u>\$ 22,368</u>	<u>\$ 228,717</u>	<u>\$ -</u>	<u>\$ 208</u>	<u>\$ 30,000,000</u>	<u>\$ -</u>	<u>\$ 30,022,368</u>	<u>\$ 303,535</u>
Reconciliation of operating income (loss) to net cash from operating activities:										
Operating income (loss)	\$ (2,569,773)	\$ 1,400,439	\$ 6,467,448	\$ (553,603)	\$ (149,727)	\$ (93,330)	\$ -	\$ -	\$ 3,747,948	\$ 753,506
Adjustments to reconcile operating income (loss) to net cash from operating activities:										
Interest income reported as cash flows from investing activities	(67,236,326)	(63,369,100)	(92,435,757)	(76,500,326)	(41,948)	(8,390)	-	-	(159,714,031)	(139,877,816)
Interest expense reported as cash flows from noncapital financing activities	64,334,289	59,142,973	84,772,581	76,014,498	125,645	58,822	-	-	149,232,515	135,216,293
Amortization of deferred charges	5,272,046	3,397,552	1,216,411	1,061,918	28,200	28,300	-	-	6,516,657	4,487,770
Changes in assets and liabilities:										
(Increase) decrease in receivables	(124,750)	104,614	5,469,436	435,933	-	-	-	-	5,344,686	540,547
Increase (decrease) in payables	-	-	(53,260)	(1,027,847)	(3,211)	14,598	-	-	(56,471)	(1,013,249)
Net cash provided by (used in) operating activities	<u>\$ (324,514)</u>	<u>\$ 676,478</u>	<u>\$ 5,436,859</u>	<u>\$ (569,427)</u>	<u>\$ (41,041)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,071,304</u>	<u>\$ 107,051</u>

Noncash Investing, Capital, and Financing Activities - During 2005, the State of Michigan assigned \$42,306,380 of future school bond loan repayments to the School Loan Revolving Fund in exchange for \$41,000,000. During 2004, there were no noncash investing, capital, and financing activities.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2005 and 2004**

Note I - Significant Accounting Policies

The accounting policies of the Michigan Municipal Bond Authority of the State of Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Michigan Municipal Bond Authority (the Authority), a component unit of the State of Michigan, was created pursuant to Act 227 of the Michigan Public Acts of 1985 (the "Shared Rating Credit Act"), as amended. The Authority provides alternative sources of funding for government units within the state to undertake or continue public improvements by assisting those government units in financing and marketing, in an orderly fashion, municipal debt. The Authority is empowered to borrow money and to issue its bonds and notes to provide funds for various municipal purposes; such as public improvement, deficit reduction, and other purposes.

The Authority is governed by its own Board of Trustees, who are appointed by the Governor of the State of Michigan, and functions as a separate and distinct corporate body from the state. The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the state or to pledge the full faith and credit of the state. Certain nonprogrammatic administrative functions are provided by the state and paid by the Authority. In accordance with accounting principles generally accepted in the United States of America there are no component units required to be included in this financial report.

For accountability purposes, the accounts of the Authority are organized into four distinct funds, each of which is considered a separate accounting entity:

General Fund - The General Fund is the main operating fund for the Authority and accounts for all of the activities that are not accounted for in the State Revolving Fund, Strategic Water Quality Initiatives Fund, and the School Loan Revolving Fund.

State Revolving Fund - The Michigan Municipal Bond Authority and the Michigan Department of Environmental Quality serve as co-administrators of the State Revolving Fund.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2005 and 2004**

Note I - Significant Accounting Policies (Continued)

The State Revolving Fund consists of the Clean Water Program and the Drinking Water Program. The State Revolving Fund provides reduced interest loans for the construction of water pollution control and drinking water projects. From 1989 through 1992, the Authority's State Revolving Fund operated as a direct loan program. Since 1992, the Authority has sold State Revolving Fund Revenue Bonds. It is from these bond issues that local units of government receive reimbursements for approved project costs up to the total amount of their loans.

The State of Michigan received federal capitalization grants from the U.S. EPA from fiscal year 1989 through 2005. The capitalization grants in addition to released funds from the reserve accounts and the state match funds are deposited into the reserve accounts to provide coverage for the revenue bonds. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations of the Authority. The state or other sources provide \$1,000,000 in matching funds for every \$5,000,000 in federal contributions. To be eligible for a loan, the project must be included on the State's Project Priority List and Annual Intended Use Plan. Federal contributions and state match are funded and recognized as operating subsidies, which are non-operating revenues to the Authority, when amounts are earned. The Michigan Department of Environmental Quality (DEQ) receives up to 4.0 percent of the federal capitalization grant to reimburse a portion of salaries and administrative costs incurred for DEQ and the Authority. In addition, the state provides matching funds to cover a portion of salaries and administrative costs associated with the Clean Water Program. Administrative fees received from the Department of Environmental Quality to cover these expenses are recognized as other operating revenue in the accompanying statements of revenue, expenses, and changes in net assets.

Strategic Water Quality Initiatives Fund - The Michigan Municipal Bond Authority and the Department of Environmental Quality serve as co-administrators of the Strategic Water Quality Initiatives Fund.

The Strategic Water Quality Initiatives Fund provides reduced interest loans for municipalities to improve sewage treatment facilities. These projects will be financed through Strategic Water Quality Initiative Fund Revenue Bonds.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 1 - Significant Accounting Policies (Continued)

At the 2002 General Election, voters authorized up to \$1 billion of State General Obligation Bonds for the purpose of improving the quality of waters in the State by financing sewage treatment works, storm water, and non-point source projects.

Act 397 of 2002 provides for an allocation of the proceeds of the Great Lakes Water Quality Bonds with 90 percent going to the existing State Revolving Loan Fund and 10 percent for use in the new Strategic Water Quality Initiatives Program. No more than 10 percent of these Bonds may be issued in any year. The first \$100 million of Great Lakes Water Quality Bonds was issued by the State of Michigan to the Authority (registered owner) on December 18, 2003. Of this amount, \$90 million is available to be used as collateral for the issuance of bonds in the State Revolving Fund, however, the Authority currently does not have plans to make loans against this amount. The remaining \$10 million is available to be used as collateral in the Strategic Water Quality Initiatives Program and for any unfunded costs of the program. The Authority has used \$4.975 million of this bond as collateral for bonds separately issued by the Authority (Note 9). It is the intent of the program to provide low interest loans to municipalities for sewage treatment improvement projects. As of September 30, 2005, this program has recognized approximately \$243,057 due from the State of Michigan.

School Loan Revolving Fund - The most recent amendment to the Shared Credit Rating Act found in the provisions of 2005 PA 93 (Act 93), required the Authority to establish the school loan revolving fund. This fund will be used to fund qualified loans to school districts as approved by the state and other purposes as specified in the Act including paying the costs of the Authority to administer the fund. Act 93 also authorized the Authority to purchase or accept by assignment from the State loan repayment obligations from a school district on a qualified loan made by the State pursuant to a School Loan Act. During FY 2005, the school loan revolving fund received a \$30 million contribution from the state in addition to an assignment of loan repayment obligations totaling \$42.3 million on loans previously made from the school bond loan fund. In exchange for the assignment of loan repayments, the Authority allocated \$41.1 million in the current fiscal year from the School Loan Revolving Fund to the State of Michigan School Aid Fund (SAF). This resulted in the Authority recording a liability to the SAF at September 30, 2005.

Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the business-type activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Authority's financial activities.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2005 and 2004**

Note I - Significant Accounting Policies (Continued)

Basis of Accounting

The Authority follows the accounting rules promulgated by the Governmental Accounting Standards Board. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB Statements. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the enterprise fund model is followed, and the full accrual basis of accounting is used.

Accounts Payable and Other Liabilities - Federal income tax regulations for certain debt issues require the Authority to rebate to the federal government the interest earned on invested debt proceeds in excess of interest paid. The Authority has recorded an estimated liability, which is included in accounts payable and other liabilities. Final amounts will be required to be forwarded to the federal government at a future date. The Authority has funds designated to pay the potential liability.

Deferred Revenue - The State Revolving Fund deferred revenue reflects current money received that is to be used to match federal capitalization grants which provide loans to local units of government.

Restricted Net Assets - The State Revolving Fund, Strategic Water Quality Initiatives Fund, and the School Loan Revolving Fund restricted net assets are for the construction of water pollution control, drinking water projects, sewage system improvements, and for qualified loans to school districts.

Revenues/Expenses - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 2 - Deposit and Investments

During the year ended September 30, 2005, the Authority adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The modified disclosures required by GASB 40 are reflected below. The September 30, 2004 disclosure continues to be presented under GASB No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Cash and investments held by the Authority at September 30, 2005 were as follows:

	Cash	Investments	Total
Cash	\$ 30,022,368	\$ -	\$ 30,022,368
Investments	-	1,682,395,210	1,682,395,210
Total	<u>\$ 30,022,368</u>	<u>\$ 1,682,395,210</u>	<u>\$ 1,712,417,578</u>

The Authority has designated five banks for the deposit of its funds. The investment policy in accordance with State statutes has authorized investment in bonds and securities of the United States government, and its agencies, prime commercial paper, bank accounts, and CDs. The Authority's deposits and investment policies are in accordance with State statutes.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$30,022,368 of bank deposits. Of that amount, \$100,000 was covered by federal depository insurance coverage, and none of the deposits are covered by collateral held in the pledging bank's trust department in the Authority's name. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 2 - Deposit and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

Type of Investment	Fair Value	Less than One		More Than 10	
		Year	1-5 Years	6-10 Years	Years
Guaranteed investment contracts	\$ 943,044,888	\$ -	\$ 426,674,400	\$ 6,940,646	\$ 509,429,842
U.S. Government securities	522,521,039	380,754,585	84,906,043	29,946,465	26,913,946
Commercial Paper	23,000,000	23,000,000	-	-	-

Credit Risk

The Authority has no investment policy that would limit its investment choices, except as noted in the State statute. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 972,477	AAAm	S&P
Mutual funds	192,856,806	Not rated	N/A
Guaranteed investment contracts	17,111,984	AAA	S&P
Guaranteed investment contracts	6,940,646	AA+	S&P
Guaranteed investment contracts	918,992,258	AA-	S&P
Commercial Paper	23,000,000	AI	S&P

Cash and investments are included on the statement of net assets at September 30, 2004 under the following classifications:

	Cash	Investments	Total
Deposits	\$ 303,535	\$ -	\$ 303,535
Investments	-	1,593,584,686	1,593,584,686
Total	\$ 303,535	\$ 1,593,584,686	\$ 1,593,888,221

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 2 - Deposit and Investments (Continued)

Cash - The majority of the Authority's cash is with the State Treasurer who manages the state's common cash pool, which is used by most State funds and Authorities. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. The common cash pool is described in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR).

Investments - Investments are stated at market value. The investment authorization for the Authority is found in their enabling statutes and/or their bond resolutions, where applicable.

The Authority's investments have been categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments that are held by the broker or dealer, or by its trust department or agent, in the Authority's name. Category 3, of which there are none, includes uninsured and unregistered investments held by the broker or dealer, or by its trust department or agent, but not in the Authority's name. Market value is determined by the Authority's trustees. A significant portion of the investments are payments for receivables from local municipalities used to pay bonds due October 1 of the subsequent fiscal year.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 2 - Deposit and Investments (Continued)

The following is a summary of the investments of the Authority by category at September 30, 2004:

	Category 1	Category 2	Not Categorized*	Total
General Fund:				
Bank investment pools	\$ -	\$ -	\$ 7,750,061	\$ 7,750,061
Guaranteed investment contracts	-	-	16,268,624	16,268,624
Total General Fund	\$ -	\$ -	\$ 24,018,685	\$ 24,018,685
State Revolving Fund:				
Bank investment pools	\$ -	\$ -	\$ 189,187,948	\$ 189,187,948
Guaranteed investment contracts	-	-	1,121,895,631	1,121,895,631
Commercial paper	-	57,000,000	-	57,000,000
U.S. Government Securities	-	200,764,670	-	200,764,670
Total State Revolving Fund	\$ -	\$ 257,764,670	\$ 1,311,083,579	\$ 1,568,848,249
Strategic Water Quality Initiatives Fund:				
Bank investment pools	\$ -	\$ -	\$ 317,752	\$ 317,752
Commercial paper	-	400,000	-	400,000
Total State Water Quality Initiatives Fund	\$ -	\$ 400,000	\$ 317,752	\$ 717,752
Total				\$ 1,593,584,686

* The bank investment pools and guaranteed investment contracts are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. The Authority's guaranteed investment contract investments are collateralized by government obligations having a greater market value than the invested funds.

Note 3 - Deferred Charges

Deferred charges represent bond and note issuance costs as of September 30, 2005 and 2004. These costs are being amortized using the interest method over the life of the related notes and bonds. Accumulated amortization was \$22,128,456 and \$21,235,323 at September 30, 2005 and 2004, respectively.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 4 - Revenue Notes Payable and Receivable

Pooled state aid anticipation notes payable consisted of the following at September 30, 2005 and 2004:

Series	Interest Rate (%)	Yield (%)	Maturity Date	Beginning as of October 1, 2004	Additions	Deletions	Ending as of September 30, 2005
2005A	3.50	2.80	August 22, 2005	\$ -	\$ 12,825,000	\$ (12,825,000)	\$ -
2005A Detroit	3.75	2.55	March 22, 2005	-	161,056,614	(672,550)	160,384,064
2005B1	4.00	2.87	August 19, 2005	-	76,438,239	(15,065)	76,423,174
2005B2	4.00	2.92	August 19, 2005	-	449,903,426	(64,191)	449,839,235
2005C Detroit	4.25	3.03	August 19, 2005	-	146,174,746	(196,701)	145,978,045
2004B1	3.00	1.55	August 19, 2005	298,127,565	-	(298,127,565)	-
2004B2	3.00	1.57	August 20, 2005	464,923,353	-	(464,923,353)	-
Total				<u>\$ 763,050,918</u>	<u>\$ 846,398,025</u>	<u>\$ (776,824,425)</u>	<u>\$ 832,624,518</u>

Series	Interest Rate (%)	Yield (%)	Maturity Date	Beginning as of October 1, 2003	Additions	Deletions	Ending as of September 30, 2004
2004A	1.75	1.02	August 29, 2004	\$ -	\$ 78,700,000	\$ (78,700,000)	\$ -
2004B1	3.00	1.55	August 19, 2005	-	298,295,477	(167,912)	298,127,565
2004B2	3.00	1.57	August 20, 2005	-	465,181,137	(257,784)	464,923,353
2003B1	2.00	1.02	August 20, 2004	298,110,874	-	(298,110,874)	-
2003B2	2.00	1.03	August 20, 2004	425,615,832	-	(425,615,832)	-
Total				<u>\$ 723,726,706</u>	<u>\$ 842,176,614</u>	<u>\$ (802,852,402)</u>	<u>\$ 763,050,918</u>

Pooled state aid anticipation notes receivable were \$830,905,112 and \$762,067,185 at September 30, 2005 and 2004, respectively. The notes receivable bear interest at rates ranging from 2.55 to 3.03 percent during 2005, and 1.02 to 1.57 percent during 2004. In addition, the yields on the notes receivable range from 3.078 to 3.868 percent during 2005, and 1.64 to 1.99 percent during 2004.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 5 - Bonds Receivable

Bonds receivable of the General Fund consist of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 9. The annual requirements for governmental units to repay bonds outstanding as of September 30, 2005, including both principal and interest, are as follows:

	Principal	Interest	Total
2006	\$ 83,402,231	\$ 49,451,215	\$ 132,853,446
2007	82,327,896	43,993,112	126,321,008
2008	80,499,407	41,416,020	121,915,427
2009	81,521,799	38,407,772	119,929,571
2010	77,357,539	31,226,478	108,584,017
2011-2015	270,423,340	81,377,018	351,800,358
2016-2020	68,843,764	34,867,130	103,710,894
2021-2025	15,325,294	3,218,861	18,544,155
2026-2030	3,740,384	1,302,883	5,043,267
2031-2034	2,701,627	324,950	3,026,577
Total	<u>\$ 766,143,281</u>	<u>\$ 325,585,439</u>	<u>\$ 1,091,728,720</u>

The interest is recorded as revenue when earned.

Note 6 - State Revolving Fund Loans Receivable

The State Revolving Fund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. Loans are made from the State Revolving Fund. These loans are primarily secured by limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue sharing pledge agreements and/or reserve funds. Amounts committed and receivables consisted of the following at September 30:

	Total	Receivable	
	Commitments	2005	2004
Clean Water Program:			
Acacia Park CSO Drainage District	\$ 1,635,000	\$ 765,000	\$ 840,000
City of Adrian	10,960,000	8,215,000	8,570,000
Village of Baraga	2,890,000	798,076	-
City of Bay	42,435,000	39,070,000	40,212,748
County of Bay	9,240,000	4,235,000	4,720,000

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 6 - State Revolving Fund Loans Receivable (Continued)

	Total Commitments	Receivable	
		2005	2004
Clean Water Program (Continued):			
City of Belding	\$ 2,245,000	\$ 565,743	\$ 685,743
Village of Beulah	1,340,000	964,127	1,024,127
Birmingham CSO Drainage District	4,345,000	2,605,000	2,810,000
Bloomfield Hills CSO Drainage District	250,000	110,000	120,000
Bloomfield Village CSO Drainage District	3,135,000	1,815,000	1,960,000
City of Boyne	8,395,000	4,459,015	-
County of Calhoun	5,220,000	1,570,000	1,845,000
Charter Township of Canton	2,295,000	785,000	905,000
County of Cass	5,250,000	1,375,000	1,645,000
Village of Centreville	1,995,000	1,325,000	1,410,000
Charter Township of Chesterfield	2,075,000	1,227,442	1,325,246
Charter Township of Clinton	1,405,000	1,290,000	568,256
County of Clinton	430,000	115,000	135,000
Village of Clinton	4,000,000	466,997	-
City of Dearborn	147,345,000	16,148,034	8,520,000
City of Detroit	592,410,000	469,768,788	416,728,859
City of East Lansing	28,220,000	17,310,840	14,211,126
City of Eaton Rapids	9,545,000	5,314,193	-
City of Escanaba	2,470,000	1,315,000	1,430,000
City of Farmington	13,090,000	3,845,000	4,550,000
City of Frankenmuth	6,645,000	4,950,000	5,250,000
City of Garden City	2,435,000	1,174,936	1,294,936
County of Genesee	37,685,000	-	-
Township of Genoa	3,065,000	930,000	1,085,000
Genoa-Oceola Sanitary Sewer Drain No. 1 Drainage District	7,505,000	2,515,000	2,905,000
George W. Kuhn Drainage District	104,870,000	94,358,722	92,839,961
City of Grand Ledge	1,615,000	680,000	760,000
City of Grand Rapids	68,385,000	30,581,693	33,898,505
County of Grand Traverse	2,255,000	585,000	710,000
Township of Grosse Isle	40,000,000	23,367,103	21,638,193
City of Grosse Pointe Farms	7,625,000	6,385,000	6,705,000
City of Grosse Pointe Park	23,280,000	15,355,000	16,460,000
Township of Hamburg	1,590,000	520,000	605,000
Harbor Springs Area Sanitary Drain	5,875,000	5,209,770	5,434,770
Hartland Township Sanitary Drain No. 2 Drainage District	8,765,000	4,835,441	5,245,441
City of Hillsdale	2,785,000	1,220,000	1,360,000
County of Hillsdale	2,305,000	1,030,000	1,145,000
County of Ionia	6,475,000	2,005,000	2,380,000
County of Iosco	935,000	330,000	375,000

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 6 - State Revolving Fund Loans Receivable (Continued)

	Total Commitments	Receivable	
		2005	2004
Clean Water Program (Continued):			
County of Jackson	\$ 2,700,000	\$ 1,340,000	\$ 1,475,000
Village of Kent City	1,260,000	880,000	940,000
City of Lansing	140,960,000	88,694,737	84,088,075
Lake St. Clair	43,465,000	38,285,000	39,944,111
County of Lenawee	5,035,000	2,717,483	2,759,514
Township of Leoni	1,710,000	855,000	940,000
County of Macomb	1,170,000	410,000	470,000
Village of Manchester	955,000	324,282	374,282
City of Manistee	5,525,000	4,025,000	4,270,000
City of Marine City	10,415,000	4,150,000	4,630,000
City of Marquette	3,470,000	3,330,000	391,139
City of Marshall	1,800,000	545,000	680,000
City of Marysville	9,465,000	5,763,844	3,915,000
City of Menominee	1,520,000	680,000	760,000
City of Midland	5,130,000	4,359,063	4,559,789
Milk River Drain Drainage District	32,110,000	13,010,095	11,090,095
County of Monroe	13,510,000	7,940,000	8,590,000
City of Mount Clemens	18,110,000	13,774,964	14,569,393
County of Muskegon	17,500,000	-	-
County of Newaygo	490,000	52,736	-
County of Oakland	9,350,000	6,545,000	6,970,000
Village of Ontonagon	495,000	315,000	340,000
Board of County Road Commissioners of the County of Ottawa	2,075,000	575,000	685,000
County of Ottawa	4,785,000	3,539,446	3,754,446
Charter Township of Plainfield	1,485,000	455,749	535,749
City of Port Huron	55,555,000	44,153,636	40,560,900
Charter Township of Redford	2,470,000	1,062,897	1,177,897
City of Riverview	10,860,000	5,933,539	6,468,539
Rollin-Woodstock Sanitary Drain	5,080,000	4,430,000	4,655,000
County of Roscommon	3,500,000	1,665,000	1,845,000
City of Royal Oak	15,800,000	10,837,387	11,437,387
City of Saginaw	85,180,000	40,882,275	44,316,006
County of Saginaw	33,305,000	14,746,396	16,416,396
City of St. Clair	3,270,000	1,370,000	4,753,287
County of St. Clair	5,065,000	4,548,287	3,325,819

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 6 - State Revolving Fund Loans Receivable (Continued)

	Total Commitments	Receivable	
		2005	2004
Clean Water Program (Continued):			
City of St. Joseph	\$ 4,205,000	\$ 3,701,730	\$ 2,933,776
City of Sault Ste. Marie	11,715,000	8,912,503	8,889,883
South Huron Valley Utility Authority	48,620,000	34,438,780	29,854,923
City of South Lyon	17,250,000	14,992,277	11,062,139
City of Southfield	38,380,000	30,163,789	31,813,789
Village of Springport	735,000	547,137	575,274
Village of Stockbridge	2,770,000	2,180,428	1,756,230
City of Sturgis	5,745,000	3,750,000	4,020,000
Village of Suttons Bay	2,200,000	478,193	-
Village of Three Oaks	2,155,000	1,895,000	1,985,000
City of Trenton	46,080,000	38,071,445	34,363,036
County of Van Buren	1,900,000	1,415,000	1,500,000
City of Warren	20,635,000	12,980,383	3,217,803
County of Washtenaw	9,855,000	1,380,000	1,480,000
City of Wayne	1,310,000	510,000	550,000
Charter County of Wayne	256,580,000	175,700,440	190,595,497
Township of White Lake	4,130,000	3,776,112	3,867,560
Subtotal	2,265,555,000	1,448,580,953	1,374,460,645
Drinking Water Program:			
City of Adrian	5,665,000	5,220,000	5,445,000
City of Ann Arbor	805,000	382,500	-
Village of Armada	3,740,000	3,112,432	-
County of Barry	650,000	618,281	459,038
City of Bay City	6,000,000	71,000	-
City of Belding	685,000	635,000	660,000
Village of Beverly Hills	3,690,000	2,387,191	353,475
Village of Blissfield	7,235,000	5,795,707	6,105,707
City of Boyne City	1,785,000	1,645,000	1,678,955
Village of Breckenridge	330,000	200,000	215,000
City of Brighton	1,520,000	1,344,294	1,336,170
Village of Caro	2,815,000	648,230	685,640
Village of Carrolton	2,165,000	1,455,000	1,550,000
Carson City	1,600,000	770,144	-
County of Charlevoix	595,000	532,624	534,564
Village of Chelsea	9,200,000	7,835,000	8,220,000
Village of Colon	2,085,000	1,593,655	1,673,655
City of Cooperville	750,000	560,000	590,000
City of Davison	6,000,000	5,604,981	4,189,415
Village of Deerfield	925,000	855,000	812,120
City of Detroit	25,975,000	-	-
City of East Jordan	2,140,000	1,646,218	659,218

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 6 - State Revolving Fund Loans Receivable (Continued)

	Total Commitments	Receivable	
		2005	2004
Drinking Water Program (Continued):			
City of Eaton Rapids	\$ 1,745,000	\$ 1,164,806	\$ 1,229,806
City of Escanaba	2,750,000	2,530,000	2,640,000
City of Fenton	11,080,000	9,888,759	10,333,759
Township of Filer	1,490,000	1,365,641	1,099,959
City of Flint	43,915,000	37,348,186	29,526,712
City of Flushing	2,045,000	1,385,000	1,475,000
City of Frankfort	1,775,000	1,330,000	1,410,000
Village of Grand Beach	720,000	539,334	569,334
City of Grand Blanc	4,400,000	3,963,680	4,008,509
City of Highland Park	6,000,000	5,229,898	5,384,898
Village of Holly	1,435,000	1,080,000	1,145,000
City of Hudson	1,770,000	1,521,665	1,591,665
City of Hudsonville	500,000	375,000	395,000
County of Huron	835,000	686,476	642,123
Charter Township of Independence	18,625,000	11,984,883	-
City of Ironwood	900,000	675,000	715,000
County of Jackson	2,255,000	2,075,000	3,245,000
County of Jackson Water Supply	1,110,000	975,000	1,020,000
County of Kalamazoo	750,000	523,432	-
Village of Lake Linden	1,200,000	1,085,000	1,115,000
Charter Township of Lansing	1,205,000	804,937	854,937
County of Lapeer	1,155,000	746,507	791,507
Village of Manchester	620,000	470,000	495,000
City of Marine City	3,655,000	865,000	915,000
City of Marion	1,800,000	1,693,383	1,738,383
Charter Township of Marquette	4,520,000	1,644,427	-
City of Melvindale	1,100,000	825,000	875,000
Village of Milford	3,665,000	3,145,000	3,243,885
Township of Monitor	455,000	341,085	266,349
County of Monroe	4,250,000	3,915,000	4,042,144
City of Mount Clemens	11,890,000	9,358,000	9,867,500
City of Mt. Morris	420,000	312,844	332,844
City of Muskegon	13,900,000	13,900,000	2,830,198
Village of Muir	2,190,000	1,810,979	1,897,711
Village of Nashville	965,000	845,000	885,000
City of North Branch	1,320,000	1,049,592	1,094,120
Village of Ontonagon	7,370,000	6,958,862	7,193,862
Board of County Road Commissioners of the County of Ottawa	2,260,000	1,717,087	1,812,087
Village of Otisville	375,000	220,251	232,463
Village of Oxford	1,895,000	1,415,000	1,500,000
City of Plainwell	1,570,000	1,105,000	1,170,000
City of Port Huron	24,545,000	17,703,499	14,280,673
Village of Port Sanilac	2,135,000	1,996,206	1,922,548

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 6 - State Revolving Fund Loans Receivable (Continued)

	Total Commitments	Receivable	
		2005	2004
Drinking Water Program (Continued):			
City of Portland	\$ 1,450,000	\$ 1,289,872	\$ 981,878
City of Rockford	2,440,000	1,825,000	1,935,000
County of St. Clair	16,325,000	12,560,599	13,270,600
City of Saline	6,840,000	6,019,994	3,609,873
County of Sanilac	3,795,000	2,665,000	1,885,199
City of Sault Ste. Marie	9,090,000	7,708,796	7,600,124
City of Shelby	1,365,000	1,200,000	1,255,000
County of Shiawassee	850,000	-	-
Village of Sparta	4,330,000	3,620,000	3,805,000
Township of Summit	4,630,000	3,330,000	3,525,000
Village of Sunfield	880,000	741,707	776,707
County of Van Buren	830,000	597,340	632,340
County of Washtenaw	2,795,000	1,902,279	2,017,279
City of White Cloud	835,000	709,500	729,000
City of Wixom	17,365,000	12,819,297	13,582,973
City of Ypsilanti	12,900,000	12,105,000	8,954,344
Ypsilanti Community Utility Authority	9,375,000	6,024,763	6,220,860
Subtotal	381,010,000	276,600,823	231,737,110
Total	\$ 2,646,565,000	\$ 1,725,181,776	\$ 1,606,197,755

Scheduled repayments of \$91,666,983 are expected to be collected during fiscal year 2006.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 7 - Public School Loans Receivable

General Fund

Loans receivable of the General Fund consisting of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 9 are as follows: Public School Academies \$41,800,000 and Detroit Public Schools \$213,127,432. The annual requirements for governmental units to repay loans outstanding as of September 30, 2005, including both principal and interest, are as follows:

	Principal	Interest	Total
2006	\$ 853,320	\$ 3,258,255	\$ 4,111,575
2007	10,541,984	10,050,498	20,592,482
2008	10,299,980	15,625,665	25,925,645
2009	11,467,403	14,395,987	25,863,390
2010	12,884,855	13,012,578	25,897,433
2011-2015	79,443,198	49,618,775	129,061,973
2016-2020	100,936,692	27,192,613	128,129,305
2021-2025	8,800,000	9,863,238	18,663,238
2026-2030	12,900,000	5,412,500	18,312,500
2031-2032	6,800,000	547,125	7,347,125
Total	<u>\$ 254,927,432</u>	<u>\$ 148,977,234</u>	<u>\$ 403,904,666</u>

School Loan Revolving Fund

The loans receivable of the School Loan Revolving Fund are from school districts that previously borrowed from the School Bond Loan Fund. During the year, these loans in the amount of \$42,306,380 were assigned to this Fund by an agreement with the State of Michigan. The loans receivable from these school districts does not contain a provision for minimum required principal payments.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 8 - Strategic Water Quality Initiatives Loans Receivable

The Strategic Water Quality Initiatives Fund has made commitments to municipalities to loan funds for purposes such as septic system upgrades, replacements, and other projects which are generally not eligible to be financed through the State Revolving Loan Fund Program. Loans are made from the Strategic Water Quality Initiatives Fund. These loans are primarily secured by limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed and receivables consisted of the following at September 30:

	Total	Receivable	
	Commitments	2005	2004
City of Ann Arbor	\$ 1,755,000	\$ 1,226,302	\$ 658,728
Charter Township of Clinton	270,000	110,405	29,586
Total	<u>\$ 2,025,000</u>	<u>\$ 1,336,707</u>	<u>\$ 688,314</u>

Scheduled repayments of \$75,000 are expected to be collected during fiscal year 2006.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable

General Fund

Bonds payable of the General Fund consisted of the following at September 30:

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			September 30	
			2005	2004
Local Government Loan Program Revenue Bonds, Series 1986A, issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements and for other municipal purposes on more favorable terms than might otherwise be obtained by such governmental units. The bonds bear interest at rates ranging from 6.2% to 8.625% and are due at various dates between 2006 and 2013. Amounts outstanding were as follows:				
1986A, Group 2	October 30, 1986	\$ 23,900,000	\$ -	\$ 60,000
1986A, Group 4	February 19, 1987	6,300,000	55,000	55,000
1986A, Group 7	June 11, 1987	14,900,001	375,000	415,000
1986A, Group 8	August 6, 1987	36,900,000	15,000	20,000
1986A, Group 19	March 23, 1989	18,275,000	385,000	450,000
1986A, Group 21	June 1, 1989	10,690,000	-	30,000
Subtotal			830,000	1,030,000

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2005	2004
Local Government Loan Program Revenue Bonds (Resolution 1989) were issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements, deficit financing, and other municipal purposes, secured by the revenue pledged, including the Municipal Obligations issued to the Authority and the funds held in reserve accounts. The bonds bear interest at rates ranging from 2.00% to 8.00% and are due at various dates between 2006 and 2034. Amounts outstanding were as follows:				
1990D	June 28, 1990	\$ 4,685,000	\$ 145,000	\$ 225,000
1991A	February 28, 1991	106,234,562	39,751,507	45,750,699
1991B	April 11, 1991	4,120,000	60,000	90,000
1991C	June 27, 1991	56,140,074	16,227,365	18,175,326
1991D	August 29, 1991	141,183,756	3,400,218	7,754,355
1991F	December 19, 1991	10,070,000	-	165,000
1992A	March 26, 1992	57,640,000	325,000	430,000
1992B	May 14, 1992	7,075,000	135,000	290,000
1992D	September 3, 1992	9,635,000	150,000	165,000
1993A	April 6, 1993	6,705,000	780,000	1,095,000
1993B	July 13, 1993	30,925,000	6,095,000	7,420,000
1993C	June 17, 1993	2,275,000	600,000	715,000
1993D	August 26, 1993	16,385,000	990,000	1,165,000
1993E	December 16, 1993	5,880,000	495,000	645,000
1994A	April 14, 1994	105,935,000	65,615,000	72,445,000
1994B	March 30, 1994	13,080,000	665,000	2,885,000
1994C	May 24, 1994	50,610,000	8,495,000	11,125,000
1994D	May 19, 1994	4,975,000	305,000	330,000
1994E	August 25, 1994	2,455,000	30,000	30,000
1994F	October 13, 1994	6,935,000	690,000	810,000
1994G	December 21, 1994	72,149,737	9,939,737	22,364,737
1995A	June 22, 1995	15,205,000	385,000	2,700,000
1995B	December 14, 1995	20,800,000	15,235,000	16,090,000
1996A	September 20, 1996	5,755,000	890,000	1,605,000
1997A	April 29, 1997	7,705,000	4,325,000	4,835,000
1997B	August 14, 1997	17,375,000	11,945,000	12,705,000
1997C	October 30, 1997	16,335,000	7,325,000	8,470,000
1997D	December 22, 1997	9,300,000	5,095,000	5,830,000
1998A	June 16, 1998	16,100,000	7,300,000	7,915,000
1999A	February 9, 1999	10,910,000	4,975,000	6,160,000
1999B	April 28, 1999	38,605,000	23,190,000	23,660,000
1999C	June 24, 1999	16,685,000	11,925,000	12,815,000
1999D	November 17, 1999	8,255,000	6,020,000	6,335,000
2000A	May 17, 2000	10,815,000	7,640,000	8,360,000
2000B	November 28, 2000	5,905,000	5,345,000	5,500,000

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2005	2004
2001A	March 29, 2001	\$ 9,055,000	\$ 8,640,000	\$ 8,860,000
2001B	July 12, 2001	10,065,000	7,300,000	8,030,000
2002 A	July 1, 2002	30,060,000	24,670,000	26,705,000
2002 B	November 1, 2002	16,790,000	15,360,000	16,025,000
2003 A	April 7, 2003	3,980,000	3,465,000	3,730,000
2003 B	September 30, 2003	19,665,000	18,640,000	19,510,000
2003 C	September 30, 2003	160,000,000	160,000,000	160,000,000
2004 A	February 18, 2004	41,155,000	39,155,000	41,155,000
2004 B	May 13, 2004	26,830,000	22,150,000	26,830,000
2004C	December 16, 2004	9,985,000	9,940,000	-
Subtotal			575,808,827	627,900,117

School Loan Revenue Bonds, original Series 1998, refunding Series 2003 A and B and Series 2005 B, issued to provide funds to local school districts and intermediate school districts in the State of Michigan. Funds are to be used by the schools for the purposes permitted by the state school aid act of 1979. The bonds have a pledge of revenue from state sources subject to annual state appropriation. The bonds bear interest rates varying from 2.71% to 5.25% and are due semi-annually on June 1 and December 1 with final maturity on December 1, 2013:

2003 A	March 25, 2003	197,295,000	197,295,000	197,295,000
2003 B	March 25, 2003	30,300,000	30,300,000	30,300,000
Subtotal			227,595,000	227,595,000

Series 2005B Revenue Bonds, School District of the City of Detroit. Date of issue May 23, 2005. Original issue \$216,090,000. The bonds bear interest at 5% and are due annually on June 1, beginning in 2007, with final maturity on June 1, 2020:

2005 B	May 24, 2005	216,090,000	216,090,000	-
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Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			September 30	
			2005	2004
Long-term Public School Academy Program provides financing to public school academies that meet eligibility requirements. The Authority's bonds actual interest rates are 7.25% to 10.5% and are due annually on October 1 with final maturity on October 1, 2031:				
Detroit Academy of Arts & Science Series 2001A	May 16, 2001	\$ 30,200,000	\$ 30,000,000	\$ 30,200,000
Detroit Academy of Arts & Science Series 2001B taxable	May 16, 2001	700,000	-	200,000
Detroit YMCA Service Learning Academy	May 16, 2001	12,100,000	11,800,000	11,900,000
Subtotal			41,800,000	42,300,000
Total bonds payable before net premium and deferred amount on refunding			1,062,123,827	898,825,117
Net premium on bonds payable			45,045,571	36,104,509
Deferred amount on refunding of bonds			(10,858,801)	(12,993,690)
Total bonds payable - General Fund			1,096,310,597	921,935,936
Less current portion			72,331,914	52,221,290
Long-term portion			\$ 1,023,978,683	\$ 869,714,646

The deferred amount on General Fund refunding will be amortized using the effective-interest method over the life of the new bonds.

Substantially all of the General Fund bonds have secondary security including bond insurance and a pledge of revenue from state sources distributed to governmental units.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

Changes in long-term debt are as follows:

	Beginning Balance October 1, 2004	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30, 2005	Due Within One Year
Local Government Loan Program					
Revenue Bonds, Series 1986A	\$ 1,030,000	\$ -	\$ (200,000)	\$ 830,000	\$ 200,000
Local Government Loan Program					
Revenue Bonds (Resolution 1989)	627,900,117	9,985,000	(62,076,290)	575,808,827	71,631,914
School Loan Revenue Bonds	227,595,000	-	-	227,595,000	-
Long-term Public School:					
Academy Bonds	42,300,000	-	(500,000)	41,800,000	500,000
Public School Bonds	-	216,090,000	-	216,090,000	-
Total	<u>\$ 898,825,117</u>	<u>\$ 226,075,000</u>	<u>\$ (62,776,290)</u>	<u>\$ 1,062,123,827</u>	<u>\$ 72,331,914</u>

	Beginning Balance October 1, 2003	Proceeds	Principal Payments	Ending Balance September 30, 2004	Due Within One Year
Local Government Loan Program					
Revenue Bonds, Series 1986A	\$ 2,610,000	\$ -	\$ (1,580,000)	\$ 1,030,000	\$ 200,000
Equipment and Real Property					
Financing Program Bonds, Series G	230,000	-	(230,000)	-	-
Local Government Loan Program					
Revenue Bonds (Resolution 1989)	676,879,999	67,985,000	(116,964,882)	627,900,117	51,521,290
School Loan Revenue Bonds	227,595,000	-	-	227,595,000	-
Long-term Public School - Academy					
Bonds	46,280,000	-	(3,980,000)	42,300,000	500,000
Total	<u>\$ 953,594,999</u>	<u>\$ 67,985,000</u>	<u>\$ (122,754,882)</u>	<u>\$ 898,825,117</u>	<u>\$ 52,221,290</u>

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

The annual requirements for the General Fund to service debt outstanding as of September 30, 2005, including both principal and interest, are as follows:

	Principal	Interest	Total
2006	\$ 72,331,914	\$ 67,679,717	\$ 140,011,631
2007	94,470,670	62,362,622	156,833,292
2008	93,171,766	58,989,095	152,160,861
2009	105,625,855	44,447,492	150,073,347
2010	98,981,962	39,735,077	138,717,039
2011-2015	377,285,535	138,585,970	515,871,505
2016-2020	169,881,125	62,061,179	231,942,304
2021-2025	24,255,000	13,163,329	37,418,329
2026-2030	16,625,000	6,715,383	23,340,383
2031-2034	9,495,000	872,075	10,367,075
Total	<u>\$ 1,062,123,827</u>	<u>\$ 494,611,939</u>	<u>\$ 1,556,735,766</u>

Bond maturities, less accreted interest on capital appreciation bonds, approximate the related receivables from governmental units as disclosed in Note 5 and Note 7.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

State Revolving Fund

Bonds payable of the State Revolving Fund consisted of the following at September 30:

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2005	2004
State Revolving Fund Revenue Bonds are used to provide low interest loans to municipalities. The bonds bear interest at rates ranging from 2.0% to 7.0% and are due at various dates between 2006 and 2028:				
State Revolving Fund Revenue Bonds, Series 1996A	August 29, 1996	\$ 86,750,000	\$ 47,930,000	\$ 53,220,000
State Revolving Fund Revenue Bonds, Series 1997	July 1, 1997	132,500,000	25,970,000	116,775,000
Clean Water Revolving Fund Revenue Bonds, Series 1998	July 15, 1998	151,165,000	126,330,000	132,750,000
Clean Water Revolving Fund Revenue Bonds, Series 2001	August 23, 2001	222,800,000	214,030,000	222,800,000
Drinking Water Revolving Fund Revenue Bonds, Series 2001	August 23, 2001	23,825,000	22,875,000	23,825,000
Clean Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	188,000,000	188,000,000	188,000,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	72,735,000	72,735,000	72,735,000
Clean Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	469,100,000	421,510,000	436,955,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	109,145,000	97,460,000	101,455,000
Clean Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	286,605,000	286,605,000	286,605,000
Drinking Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	67,895,000	67,895,000	67,895,000
Clean Water Revolving Fund Revenue Bonds, Series 2005A	July 26, 2005	103,630,000	103,630,000	-
Drinking Water Revolving Fund Revenue Bonds, Series 2005A	July 26, 2005	79,480,000	79,480,000	-
Clean Water Revolving Fund Revenue Bonds, Series 2005R	July 26, 2005	72,570,000	<u>72,570,000</u>	<u>-</u>
Subtotal			1,827,020,000	1,703,015,000
Premium on bonds payable			111,282,458	99,398,794
Deferred amount on refunding of bonds			<u>(58,924,885)</u>	<u>(61,870,231)</u>
Total bonds payable - State Revolving Fund			1,879,377,573	1,740,543,563
Less current portion			<u>58,815,000</u>	<u>45,300,000</u>
Long-term portion			\$ 1,820,562,573	\$ 1,695,243,563

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

The deferred amount on refunding will be amortized using the effective-interest method over the life of the new bonds.

Changes in long-term debt are as follows:

	Beginning Balance October 1, 2004	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30, 2005	Due Within One Year
State Revolving Fund Revenue Bonds	<u>\$1,703,015,000</u>	<u>\$255,680,000</u>	<u>\$ (131,675,000)</u>	<u>\$1,827,020,000</u>	<u>\$58,815,000</u>

	Beginning Balance October 1, 2003	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30, 2004	Due Within One Year
State Revolving Fund Revenue Bonds	<u>\$1,382,255,000</u>	<u>\$354,500,000</u>	<u>\$ (33,740,000)</u>	<u>\$1,703,015,000</u>	<u>\$45,300,000</u>

The annual requirements for the State Revolving Fund to service debt outstanding as of September 30, 2005, including both principal and interest, are as follows:

	Principal	Interest	Total
2006	\$ 58,815,000	\$ 87,726,791	\$ 146,541,791
2007	60,965,000	88,704,698	149,669,698
2008	76,985,000	85,243,116	162,228,116
2009	87,110,000	81,132,069	168,242,069
2010	90,245,000	76,714,089	166,959,089
2011-2015	492,260,000	310,777,092	803,037,092
2016-2020	522,550,000	177,950,697	700,500,697
2021-2025	359,955,000	57,465,131	417,420,131
2026-2028	78,135,000	4,695,150	82,830,150
Total	<u>\$ 1,827,020,000</u>	<u>\$ 970,408,833</u>	<u>\$ 2,797,428,833</u>

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

Strategic Water Quality Initiatives Fund

Bonds payable of the Strategic Water Quality Initiatives Fund consisted of the following at September 30:

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			September 30	
			2005	2004
Strategic Water Quality Initiatives Fund:				
Revenue Bonds, Series 2004A	March 18, 2004	\$ 1,500,000	\$ -	\$ 1,500,000
Revenue Bonds, Series 2004B	December 14, 2004	2,400,000	2,400,000	-
Discount on bonds payable			(6,358)	(16,682)
Total bonds payable - Strategic Water Quality Initiatives Fund			\$ 2,393,642	\$ 1,483,318

Changes in long-term debt are as follows:

	Beginning Balance	Proceeds	Principal Payments/ Extinguishments	Ending Balance	Due Within One Year
Strategic Water Quality Initiatives Fund					
Revenue Bonds	<u>\$ 1,500,000</u>	<u>\$ 2,400,000</u>	<u>\$ (1,500,000)</u>	<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>

Defeased Debt

During the fiscal year 2005, the Clean Water State Revolving Fund issued Refunding Bonds at a premium with a par amount of \$72,570,000 and an average coupon rate of 5.00 percent. The proceeds were used to partially refund various Clean Water State Revolving Fund Bonds in the amount of \$86,375,000 with an average coupon rate of 5.24 percent. The net proceeds of \$90,960,369, including issuance of net premium of \$6,333,696 (after payment of \$630,260 in underwriting fees, insurance, and other issuance costs), plus an additional \$12,056,673 of investments were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. There is an economic gain of \$4.72 million to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$86.8 million and the net carrying amount of the old debt of \$79.53 million.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 9 - Bonds Payable (Continued)

Defeased Debt (Continued)

The net deferred accounting loss on refunding of \$4,122,192 will be amortized using the effective-interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the State Revolving Fund. The advance refunding decreased total debt service receipts and payments over the next 7 years by approximately \$23.91 million.

During the fiscal year 2004, the General Fund issued \$41,155,000 of Local Government Loan Program Revenue Bonds, Series 2004A with an average interest rate of 4.4 percent; the proceeds were used to partially refund various Local Government Loan Program Revenue Bonds in the amount of \$31,475,000 with an average interest rate of 6.2 percent. There is an economic gain of \$372,293 to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$31,670,094 and the net carrying amount of the old debt of \$30,906,749. The net deferred accounting loss on refunding of \$763,345 will be amortized using the effective-interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the General Fund. The advance refunding decreased total debt service receipts and payments over the next 7 years by approximately \$582,000.

During the fiscal year 2004, the General Fund also issued \$26,830,000 of Local Government Loan Program Revenue Bonds, Series 2004B with an average interest rate of 3.9 percent; the proceeds were used to refund various Local Government Loan Program Revenue Bonds in the amount of \$24,630,000 with an average interest rate of 6.2 percent. There is an economic gain of \$1,846,361 to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$24,090,158 and the net carrying amount of the old debt of \$24,302,177. The net deferred accounting gain on refunding of \$212,019 will be amortized using the effective-interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the General Fund. The advance refunding decreased total debt service receipts and payments over the next 10 years by approximately \$5,352,000.

In prior years, the General and State Revolving Funds defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At September 30, 2005, \$641,452,600 of bonds outstanding is considered defeased.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 10 - Other Income

Other income consists of the following:

	2005	2004
Administrative fee from the Department of Environmental Quality	\$ 2,461,406	\$ 2,659,662
Other income	<u>724,712</u>	<u>1,433,604</u>
Total other revenue	<u>\$ 3,186,118</u>	<u>\$ 4,093,266</u>

The State Revolving Fund processes requests for reimbursement of costs from various federal grants awarded to the Department of Environmental Quality (DEQ). The State Revolving Fund does not record these reimbursements relating to DEQ's program as revenues or expenses. These federal funds, processed on behalf of DEQ, are reflected in DEQ's accounting records. During the year ended September 30, 2004, \$1,825,369 in federal set-aside grant funds, were requested by the state and submitted to DEQ.

Note 11 - Contribution MPEFA

During 2004 the loans receivable from University Preparatory Academy were paid in full. This resulted in the release of restricted assets for public school academies. These funds were transferred back to the Michigan Public Education Facilities Authority.

Note 12 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan provides coverage for the Authority.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2005 and 2004

Note 13 - Employee Benefits

Plan Descriptions - The Michigan Municipal Bond Authority participates in the State of Michigan's defined benefit and defined contribution plans that cover most state employees, as well as related component units such as the Michigan Municipal Bond Authority. The defined benefit plan provides retirement, disability, death benefits, and annual cost of living adjustment to plan members. The system issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-6262.

Funding Policy - Plan members are not required to make contributions; the Michigan Municipal Bond Authority is required to contribute at an actuarially determined rate for the defined benefit plan of 13.12 and 4.02 percent of payroll for the years ended September 30, 2005 and 2004, respectively. The defined benefit contributions to the plan were equal to the required contributions for each year. The Michigan Municipal Bond Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent for the years ended September 30, 2005 and 2004. The contribution requirements of plan members and the Michigan Municipal Bond Authority are established and may be amended by the state legislature. The state legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan.

Postemployment Benefits - In addition, the Michigan Municipal Bond Authority participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you go basis. Employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements, will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

Other Supplemental Information

Michigan Municipal Bond Authority
Lansing, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

We have audited the basic financial statements of the Michigan Municipal Bond Authority, a component unit of the State of Michigan, as of and for the years ended September 30, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Michigan Municipal Bond Authority. This information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 28, 2005

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Net Assets

	Clean Water Program		Drinking Water Program		Total	
	September 30		September 30		September 30	
	2005	2004	2005	2004	2005	2004
Assets						
Cash	\$ 2,438	\$ 15,754	\$ 19,930	\$ 212,963	\$ 22,368	\$ 228,717
Investments	1,301,052,095	1,282,181,452	352,467,495	286,666,797	1,653,519,590	1,568,848,249
Accrued interest receivable	10,647,865	9,228,986	2,694,581	2,411,625	13,342,446	11,640,611
Deferred charges - Net	10,288,373	10,321,264	2,527,702	2,034,543	12,816,075	12,355,807
Receivable from State of Michigan	16,110,200	17,826,322	-	-	16,110,200	17,826,322
Loans receivable	1,448,580,953	1,374,460,645	276,600,823	231,737,110	1,725,181,776	1,606,197,755
Other receivables	314,250	2,876,837	190,561	2,767,532	504,811	5,644,369
Total assets	\$ 2,786,996,174	\$ 2,696,911,260	\$ 634,501,092	\$ 525,830,570	\$ 3,421,497,266	\$ 3,222,741,830
Liabilities and Net Assets						
Liabilities						
Accounts payable and other liabilities	\$ 3,868,105	\$ 5,197,835	\$ 97,336	\$ 437,700	\$ 3,965,441	\$ 5,635,535
Due to other governmental units	340,504	445,872	69,531	68,129	410,035	514,001
Accrued interest payable	35,289,035	36,062,562	7,328,430	6,569,910	42,617,465	42,632,472
Deferred revenue	-	4,763,591	761,444	6,178,159	761,444	10,941,750
Bonds payable	1,525,106,167	1,465,739,659	354,271,406	274,803,904	1,879,377,573	1,740,543,563
Total liabilities	1,564,603,811	1,512,209,519	362,528,147	288,057,802	1,927,131,958	1,800,267,321
Net Assets						
Restricted:						
Water pollution and drinking water projects	1,222,392,363	1,184,701,741	271,972,945	237,772,768	1,494,365,308	1,422,474,509
Total liabilities and net assets	\$ 2,786,996,174	\$ 2,696,911,260	\$ 634,501,092	\$ 525,830,570	\$ 3,421,497,266	\$ 3,222,741,830

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Revenue, Expenses, and Changes in Net Assets

	Clean Water Program		Drinking Water Program		Total	
	September 30		September 30		September 30	
	2005	2004	2005	2004	2005	2004
Operating Revenue						
Interest	\$ 76,319,675	\$ 64,608,987	\$ 16,116,082	\$ 11,891,339	\$ 92,435,757	\$ 76,500,326
Other	2,130,470	2,246,059	330,936	413,603	2,461,406	2,659,662
Total operating revenue	78,450,145	66,855,046	16,447,018	12,304,942	94,897,163	79,159,988
Operating Expenses						
Interest expense	71,478,106	65,065,786	13,294,475	10,948,712	84,772,581	76,014,498
Amortization of deferred charges - Net	1,029,253	906,151	187,158	155,767	1,216,411	1,061,918
Salaries, wages, and other administrative	2,212,159	2,246,058	228,564	391,117	2,440,723	2,637,175
Total operating expenses	74,719,518	68,217,995	13,710,197	11,495,596	88,429,715	79,713,591
Operating Income (Loss)	3,730,627	(1,362,949)	2,736,821	809,346	6,467,448	(553,603)
Nonoperating Revenue - Operating subsidies	33,959,995	61,369,564	31,463,356	49,365,112	65,423,351	110,734,676
Changes in Net Assets	37,690,622	60,006,615	34,200,177	50,174,458	71,890,799	110,181,073
Net Assets - Beginning of year	1,184,701,741	1,124,695,126	237,772,768	187,598,310	1,422,474,509	1,312,293,436
Net Assets - End of year	<u>\$ 1,222,392,363</u>	<u>\$ 1,184,701,741</u>	<u>\$ 271,972,945</u>	<u>\$ 237,772,768</u>	<u>\$ 1,494,365,308</u>	<u>\$ 1,422,474,509</u>

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Cash Flows

	Clean Water Program		Drinking Water Program		Total	
	Year Ended September 30		Year Ended September 30		Year Ended September 30	
	2005	2004	2005	2004	2005	2004
Cash Flows from Operating Activities						
Cash payments to employees and suppliers for goods and services	\$ (1,821,089)	\$ (2,233,713)	\$ (239,050)	\$ (380,631)	\$ (2,060,139)	\$ (2,614,344)
Other operating revenue	4,587,689	1,677,914	2,909,309	367,003	7,496,998	2,044,917
Net cash provided by (used in) operating activities	2,766,600	(555,799)	2,670,259	(13,628)	5,436,859	(569,427)
Cash Flows from Noncapital Financing Activities						
Proceeds from sale of bonds and notes	191,574,803	310,899,099	85,162,014	73,243,458	276,736,817	384,142,557
Payment of bond issue costs	(1,520,017)	(2,806,014)	(680,317)	(676,840)	(2,200,334)	(3,482,854)
Principal paid on bonds and notes	(43,953,537)	(29,860,000)	(4,945,000)	(3,880,000)	(48,898,537)	(33,740,000)
Extinguishment of debt	(86,375,000)	-	-	-	(86,375,000)	-
Interest paid on bonds and notes	(75,328,536)	(61,641,136)	(13,615,345)	(10,364,217)	(88,943,881)	(72,005,353)
Operating subsidies	29,196,404	62,793,799	26,046,641	41,605,024	55,243,045	104,398,823
Proceeds on receivables from State of Michigan	1,285,919	1,640,000	-	-	1,285,919	1,640,000
Net cash provided by noncapital financing activities	14,880,036	281,025,748	91,967,993	99,927,425	106,848,029	380,953,173
Cash Flows from Investing Activities						
Loans made to local government units	(154,001,994)	(202,193,111)	(56,649,010)	(65,198,151)	(210,651,004)	(267,391,262)
Principal received on loan repayments	79,881,686	75,115,792	11,785,297	12,782,325	91,666,983	87,898,117
Interest received on loan repayments	31,659,516	31,659,516	5,174,640	5,174,640	36,834,156	36,834,156
Net (purchases) proceeds from sale and maturities of investment securities	(18,870,643)	(220,039,037)	(65,800,698)	(58,999,261)	(84,671,341)	(279,038,298)
Interest and dividends on investments	43,671,483	34,989,379	10,658,486	6,512,668	54,329,969	41,502,047
Net cash used in investing activities	(17,659,952)	(280,467,461)	(94,831,285)	(99,727,779)	(112,491,237)	(380,195,240)

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Cash Flows (Continued)

	Clean Water Program		Drinking Water Program		Total	
	Year Ended September 30		Year Ended September 30		Year Ended September 30	
	2005	2004	2005	2004	2005	2004
Net Increase (Decrease) in Cash	\$ (13,316)	\$ 2,488	\$ (193,033)	\$ 186,018	\$ (206,349)	\$ 188,506
Cash - Beginning of year	15,754	13,266	212,963	26,945	228,717	40,211
Cash - End of year	<u>\$ 2,438</u>	<u>\$ 15,754</u>	<u>\$ 19,930</u>	<u>\$ 212,963</u>	<u>\$ 22,368</u>	<u>\$ 228,717</u>
Reconciliation of operating income (loss) to net cash from operating activities:						
Operating income (loss)	\$ 3,730,627	\$ (1,362,949)	\$ 2,736,821	\$ 809,346	\$ 6,467,448	\$ (553,603)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Interest income reported as cash flows from investing activities	(76,319,675)	(64,608,987)	(16,116,082)	(11,891,339)	(92,435,757)	(76,500,326)
Interest expense reported as cash flows from noncapital financing activities	71,478,106	65,065,786	13,294,475	10,948,712	84,772,581	76,014,498
Amortization of deferred charges	1,029,253	906,151	187,158	155,767	1,216,411	1,061,918
Changes in assets and liabilities:						
(Increase) decrease in receivables	2,562,587	(342,563)	2,906,849	778,496	5,469,436	435,933
Increase (decrease) in payables	285,702	(213,237)	(338,962)	(814,610)	(53,260)	(1,027,847)
Net cash provided by (used in) operating activities	<u>\$ 2,766,600</u>	<u>\$ (555,799)</u>	<u>\$ 2,670,259</u>	<u>\$ (13,628)</u>	<u>\$ 5,436,859</u>	<u>\$ (569,427)</u>